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AGC Inc.

Minutes of Q&A Session on Life Science Business

Q1: What feedback did you receive from customers regarding the announcement of the structural reforms of Colorado site? I understand that trust is crucial in the pharmaceutical business. How does AGC view the impact?

A1: We anticipated the impact of the structural reforms and made the decision after thorough discussions with our customer. Our strength lies in SUB technology, and we believe our customers recognize this as well. We will continue to provide integrated services through our global structure in Japan, the US, and Europe, striving to maintain customer trust.

Q2: Has letting go of large-scale SUS negatively affected the win rate of small- and medium-sized projects?

A2: We do not feel there has been any negative impact. Our business is centered on SUB technology, with a wealth of manufacturing and inspection experience. We hold the No.2 position in the market for SUB. The new Yokohama site will introduce the largest SUB bioreactors at 5,000 liters, enabling us to respond more flexibly to a wider range of needs.

Q3: The financial results disclosed performance for Colorado and other sites, but it seems non-Colorado sites are also still loss-making. What is the reason?

A3: The main reason for recent losses in the Life Science segment is the Colorado sites in the US. The situation at other sites varies. The Copenhagen site, which underwent expansion, and the new Yokohama site are impacted by upfront investments, but other sites are generally performing well.

Q4: I understand the downward revision of the guidance of Life Science segment in Q2 was mainly due to the structural reform of Colorado sites. Yet, the full-year forecast shows sales are flat year-on-year, even as the market has bottomed out and the new Copenhagen expanded facility has already started operation. Why is that?

A4: The 2024 sales included sales of commercial production at the Boulder site, as well as one-off revenue associated with the settlement of contracted projects. Sales at sites other than Boulder are steadily increasing. The expanded facility in Copenhagen started operations at the end of last year. We expect significant impact from this equipment to be reflected in the second half of 2026 or in 2027.

Q5: What annual growth rate do you expect for biopharmaceutical CDMO? How should we view AGC's growth rate compared to the overall market?

A5: Growth rates differ by modality—antibody drugs, gene and cell therapies, microbial, etc. The overall market is generally said to grow at around 10% or more annually. Given our ample capacity, AGC expects mid-teen annual growth rates toward 2030, which can be achieved with our current and planned investment. We will flexibly adjust operations and strategy in line with global pharmaceutical trends.

Q6: You expect profits from 2027. Of the deals expected to generate sales in 2027, how many are already contracted?

A6: We will have visibility into sales from 2027 onward starting in 2026. As investors have many questions about supply and demand, we are considering appropriate indicators to explain the situation.

Q7: Please share your outlook for profit growth from 2027. What are the targets for operating profit and margin in the

next mid-term management plan period or for the future?

A7: The small molecule pharmaceuticals and agrochemicals CDMO business is stable and has always been profitable. The challenge is the biopharmaceuticals CDMO business, but inquiries are steady and recovery is underway. If this trend continues, we expect to return to sustainable growth from 2026 onward, though we are not complacent. Structural reforms have been implemented at the Colorado sites, but the biopharmaceuticals CDMO business has faced various fluctuations. We will respond flexibly to future market changes and aim for a stable profit structure. We plan to achieve double-digit operating profit margins in the next mid-term management plan period and aim for the high teens.

Q8: When do you expect to achieve 10% ROCE in Life Science segment?

A8: While we cannot be overly optimistic, we expect to return to 10% ROCE from 2028 onward.

Q9: Layoffs were announced at the Boulder site; are further layoffs or staff increases needed elsewhere?

A9: The major issue was addressed by significant layoffs at the Colorado sites in the US. No staff reductions are planned at other sites. We will flexibly adjust staffing based on order volume. Staffing at the new Yokohama site, which will start business in 2027, is progressing as planned.

Q10: Please share the status of inquiries and orders. If possible, provide quantitative indicators.

A10: We have received similar requests before and are considering ways to provide explanations. Nearly half of biopharmaceuticals CDMO contracts are for early development or clinical phases. Production begins soon after contracting, and typically projects end or are extended after about two years. Therefore, it is not the case that all capacity for the following year is already contracted—if it were, the business would not be viable. It is a somewhat complex business model. We are considering disclosure of some appropriate indicators such as utilization rates, profitability, or order outlook to alleviate concerns.

Q11: There are reports like manufacturing in the US will be strengthened due to geopolitical factors and the Biosecure Act. Are inquiries at AGC's US site increasing? What about Japan and Europe?

A11: The trend of reshoring manufacturing to the US began even before the Trump administration. The policies of the Trump administration may further influence this, but in the medium to long term, products for the US market will be manufactured in the US, and similar trends will follow for Europe and Japan. The number of negotiations in the US is increasing. Inquiries at European and Japanese sites are also steady and showing signs of recovery.

Q12: What are AGC's strengths compared to Wuxi?

A12: AGC's strength as a biopharmaceuticals CDMO is its high-quality GMP framework in Japan, the US, and Europe, enabling top-tier services from any location. We have extensive inspection experience, which leads to new contracts. Specifically, we have industry-leading 10 commercial products for gene and cell therapy. Our track record in cutting-edge ex-vivo gene therapy is among the best globally. By leveraging AGC's technical strengths as a materials manufacturer, we can fully compete in terms of trust and performance.

Q13: At the Q2 financial results briefing, the CFO said Life Science will continue to be a strategic business. However, as AGC's technologies may not be compatible with Life Science, is it manageable? Was divestment of the entire Life Science business considered? Why only divest the Colorado sites?

A13: AGC has been developing life science business since the 1970s, commercialized it in 2000, and expanded it aggressively through M&A and investment since 2016. Originally, AGC has over 100 years of experience in chemicals, expanding from synthetic chemistry to synthetic pharma/agrochemicals and biopharmaceuticals. We believe Life Science is a business where our chemical and other technologies can be fully utilized. Our CDMO business has been recognized by global pharmaceutical industry awards, winning in four categories—three in biopharmaceuticals CDMO and one in small molecule pharmaceuticals CDMO. Sustainability and human resource utilization have also been externally recognized. Delivering high-quality products aligns with AGC's business model, and Life Science is a business where our people and technologies can be leveraged further.

Q14: What is AGC's approach to modalities? Will current modalities remain competitive, even without further investment? Is there a possibility of withdrawing from gene/cell therapy or small molecules? Should you focus on niche areas, considering differences from the business models of Lonza, Samsung, or Fujifilm?

A14: We focus on modalities aligned with AGC's technical strengths and compatibility. We currently have no plans to withdraw from any of our modalities. Protein therapy and small molecule pharmaceuticals and agrochemicals are performing well. Antibodies, gene/cell therapy, and mRNA are growth modalities. We have a proven track record in gene/cell therapy and mRNA ahead of competitors. For business stability, we aim to increase long-term late-phase projects.

Q15: AGC aims to build a portfolio resilient to market changes, but Life Science business is affected by decreased capital inflow to biotech. Does Life Science align with your portfolio direction?

A15: Biopharmaceuticals CDMO using SUB has a higher proportion of biotech customers. Small molecule pharmaceuticals/agrochemicals CDMO typically has long-term contracts. Our strategic businesses are resilient to market changes, and small molecule pharmaceuticals/agrochemicals CDMO fits this. Biopharmaceuticals CDMO has been affected by market fluctuations in recent years. The expected growth rate for pharmaceuticals and biopharmaceuticals CDMO is much higher than other businesses in the long term. Contracted development projects have a high growth rate, and gene/cell therapy is expected to be the fastest-growing area within biopharmaceuticals. We will continue to focus on this. By increasing late-phase development projects, as initially planned, we aim to reduce the impact of market fluctuations. The addition of the Yokohama site will further enhance flexible production and mitigate volatility.

Q16: What effects have you seen from the management team restructuring in 2024 for business turnaround?

A16: Life Science business has grown rapidly. To adapt to the next growth phase, we restructured management in 2024. Rapid growth led to growing pains such as increased turnover and hiring challenges, affecting productivity. Organizational changes and initiatives are showing signs of improvement.

Q17: Is there a chance you will challenge large-scale SUS again in the future?

A17: We have withdrawn from our only large-scale SUS (Colorado) and are refocusing on SUB to return to a growth trajectory. This technology is best suited for the small- and medium-sized drug market. For now, we will capture market growth with SUB. In two years, the new Yokohama site will operate the largest 5,000-liter SUB, allowing us to handle larger projects as well. As biopharmaceuticals CDMO market is expected to expand mid-to-long term, there is a possibility of re-entering large-scale SUS in the future, but for now, growth with SUB alone is sufficient.

Q18: I've heard biopharmaceuticals CDMO facility utilization rates are low. Is it necessary to invest 50 billion yen in the new Yokohama site? What is the outlook for orders at Yokohama?

A18: We have 10 sites in Life Science, each with different utilization rates. The expanded Copenhagen site is now operational. Newly invested sites need to increase utilization going forward. Investment in biopharmaceuticals CDMO facilities in Yokohama is based on forecasts of solid market growth for the next 10 to 20 years. CDMO investments typically require about five years from construction to GMP manufacturing and inspection. We have invested sufficiently in Europe, and capacity is largely secured in Seattle. With global market growth, Japan's only biopharmaceuticals CDMO site is Chiba, which has limited capacity and no room for further investment, so we invested in Yokohama. For Japanese pharmaceuticals companies to grow their biopharmaceuticals business, domestic CDMO capacity is still limited. We receive orders from Japanese companies for production outside Japan. The government realized during the COVID pandemic that the supply chain for vaccine was not fully established and is now keen to address this. The Yokohama site also aims to enable domestic dual-use vaccine production in emergencies. Additionally, Yokohama will capture growth from Asia and is adjacent to our Yokohama Technical Center, the group's central R&D site, allowing collaboration with global talent and academia. We expect Yokohama to become a hub for our biopharmaceuticals CDMO business.

Q19: Is small molecule pharmaceuticals CDMO also loss-making, like biopharmaceuticals CDMO? Please share recent performance, utilization, and strategy.

A19: Small molecule pharmaceuticals and agrochemicals CDMO, compared to SUB-based biopharmaceuticals CDMO, has more long-term contracts and less market volatility, providing stable earnings. Our small molecule CDMO business includes pharmaceuticals and agrochemicals segments; pharma sites in Japan are running at full capacity, and we have made additional investments in Spain. Agrochemicals experience some demand fluctuations but are generally steady.

Q20: I heard agrochemicals CDMO accounts for about 15% of Life Science sales. Is its profit margin different from pharmaceuticals CDMO?

A20: Agrochemicals CDMO achieves relatively high profitability, with double-digit operating margins.

Q21: When will the expanded facility in Spain contribute to profits?

A21: The Spain site was acquired in the past and we have completed the construction of a new facility to meet expected order growth. The opening ceremony was held this month. Full-scale operations are planned to start next year, with orders increasing gradually and profit contributions from 2027 onward.

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